



COMMISSION NEWS

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COMMISSION CONCLUDES FACTORING INVESTMENT CASE, TAKES ACTION ON PROMISSORY NOTE SCHEME

PHOENIX – Yesterday the Arizona Corporation Commission ordered a Scottsdale company and four individuals to return over \$15 million to investors and pay penalties of \$45,000 to the state. The Commission concluded its case against Martin & Griffin, LLC and 52-year-old Gregory B. Gill who sold unregistered factoring investments. In a separate case, the Commission took action against two other Scottsdale residents who peddled unregistered promissory notes in a bankrupt company.

Gregory B. Gill and Martin & Griffin, LLC

The Commission ordered Gill, formerly of Scottsdale, and his company, Martin & Griffin, to repay nearly \$7 million for fraudulently selling factoring investment contracts to several Arizona investors. The Commission also ordered Gill to pay \$25,000 in penalties to the state.

Gill and his company are the final respondents to be sanctioned in the case. In January 2003, the Commission took action against the other people and companies involved in the scheme: Hayden K. Holland, 41, of Phoenix and his company, Scottsdale Financial Funding Group, LLC, Tad L. Ulrich, 38, of Scottsdale, Wallace Butterworth, 70, of Phoenix and their respective companies, Tad L. Ulrich and Associates, LLC, of Scottsdale and Senior Advisory Services, LLC, of Florida.

The Commission found that Martin & Griffin used licensed insurance salesmen to sell the investment contracts. Through the contracts, investors' money would be used to fund the purchase and collection of corporate accounts receivable and consumer debt known as "factoring programs." A "factor" is a company or middleman who buys another company's debt and accounts receivable at a discount in exchange for the right to collect the full amount

of the debt. Investors providing the capital are promised monthly profits with the return of their money at a later date.

In this case, senior citizens responded to newspaper advertisements that promised “CD alternatives” earning up to 8.5 percent. Gill and his salespeople misled 68 investors about the safety and nature of the investment. When handing over their money, some investors believed they were purchasing secure certificates of deposits.

The Commission also found that Gill failed to inform the investors of his prior conviction for securities fraud. He neglected to provide any financial or other background information about the companies that were supposed to manage the investments.

Commissioner Mike Gleason warned that factoring investments are risky and may not be appropriate for senior citizens.

“Seniors were targeted by the individuals promoting these investments and many of the investors did not understand the nature of what they were investing in,” Gleason said. “Retirees are perceived as the most likely target market to have money to invest. Therefore, it is imperative that these investors do their own investigating to make sure the person offering the investment is properly registered and that the investment vehicles are registered. Our Securities Division can assist investors with some of this research.”

Douglas P. Warren, et al.

The Commission ordered 64-year-old Douglas P. Warren and 28-year-old Matthew W. Warren, both of Scottsdale, to repay investors \$8.2 million and to pay \$20,000 in penalties for selling unregistered promissory notes to at least 100 investors, most of whom lived in Arizona.

The Commission found that between 1997 and 2000, the Warrens sold or offered the notes which financed an insolvent company, American Automotive Group, Inc. Investors believed the money would be used to operate a business that would provide leased automobiles to customers with high-risk credit. The Warrens, however, are not registered to sell securities in Arizona.

The Commission found that the initial note offering provided for secured notes where investors received a security interest in the automobiles and accounts receivable of American Automotive. Two subsequent offerings of

unsecured notes touted even higher rates of return than the first.

Although American Automotive initially made the monthly interest payments, the Commission's Securities Division found that the Warrens used money from later investors to make the interest payment to the earlier investors, which essentially constituted a fraudulent "ponzi" scheme. Even though the Warrens did not receive salaries, the Division found that the promoters borrowed several million dollars from the company, which they never repaid.

The monthly interest payments to investors stopped after the Warrens sold the assets of American Automotive to a public company, Future Carz, Inc., in early 2001. By April 2001, the Warrens distributed to the investors an "exchange agreement" document, which disclosed that American Automotive was "technically bankrupt."

Promoters informed investors that unless they approved the agreement, they most likely would not receive any investment return. As a result, the majority of the investors approved the agreement. In exchange for their promissory notes, most of the investors received shares of Future Carz stock that were publicly traded on "pink sheets." Pink sheet stocks tend to be thinly traded, which increases the investor's risk of not being able to sell the stock.

Commissioner Jeff Hatch-Miller expressed concern about the misrepresentations made to investors but said he was "optimistic that the Warrens will cooperate with the Commission." He said "I will be following this case closely to ensure that the other respondents and their sales agents are held responsible for violations of Arizona's securities laws."

The Commission's order does not resolve the entire case, but enables the Securities Division to pursue actions against the remaining individuals who sold the unregistered promissory notes.

Prior to investing, investors should verify registration status of sellers and securities by contacting the Arizona Corporation Commission's Securities Division at 602-542-4242, toll free 1-877-811-3878 or through its website, www.ccsd.cc.state.az.us. The Division's website also has helpful information on a variety of topics including investor education resources as well as links to prior Commission orders and news releases.

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